

## Message Text

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PASS CEA, TREASURY, FRB

E.O.11652: N/A  
TAGS: ECON, OECD  
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)  
REVIEW OF NORWAY

REFS: (A) EDR(76)31, (B) STATE 305439, (C) OSLO 06313,  
(D) OECD PARIS 36611

1. SUMMARY: PRELIMINARY AND STILL UNOFFICIAL GON  
REASSESSMENT OF DEVELOPMENTS IN 1976 AND OF OUTLOOK FOR  
1977 PRESENTED BY NORWEGIAN DEL (LED BY OIEN OF FINANCE  
MINISTRY) AT DECEMBER 17 EDRC REVIEW OF NORWAY PROVIDED  
BACKGROUND FOR FRANK AND INFORMATIVE DISCUSSION OF  
NORWEGIAN ECONOMIC PROSPECTS AND POLICIES. NORWEGIAN  
DEL INDICATED THAT MAIN CHANGE IN FORECASTS CONTAINED IN  
BUDGET FOR 1977 WAS DOWNWARD REVISION IN PROJECTED GROWTH  
RATE OF TRADITIONAL EXPORTS IN LIGHT OF UNEXPECTED CON-  
TINUATION OF PAUSE IN OECD-AREA EXPANSION. GON HAS  
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LOWERED ITS ESTIMATES FOR 1976 GDP GROWTH (FROM 4.75 PER-  
CENT TO 4.25 PERCENT), AND WHILE GON HAS NOT ALTERED  
GROWTH FORECAST FOR 1977 (8 PERCENT), IT NOW EXPECTS  
SHIFT IN PATTERN OF GROWTH TO LEAN MORE HEAVILY TOWARD  
DOMESTIC DEMAND, AND CONSEQUENTLY HAS REVISED UPWARD ITS  
FORECAST OF 1977 CURRENT ACCOUNT DEFICIT. GON STRESSED,

HOWEVER, THAT POLICY STANCE FOR 1977 (RELATIVELY EXPANSIONARY FISCAL POLICY; TIGHT MONETARY POLICY) WOULD REMAIN AS SET OUT IN BUDGET, AND THAT FUNDAMENTAL POLICY OBJECTIVES WOULD REMAIN TO (A) MAINTAIN HIGH EMPLOYMENT; (B) REDUCE INFLATION RATE; (C) USE OIL REVENUES TO EFFECT SHIFT OF RESOURCES FROM EXPOSED TO SHELTERED SECTORS. NORWEGIANS STATED GON VIEW THAT EXISTING SET OF FISCAL AND MONETARY POLICY INSTRUMENTS WAS ADEQUATE TO ACHIEVE SIMULTANEOUS ACHIEVEMENT OF THESE OBJECTIVES. EDRC FELT (OIEA AGREED), HOWEVER, THAT ADOPTION OF FLEXIBLE INTEREST RATES COULD IMPROVE EFFICIENCY OF MONETARY POLICY, AND EXPRESSED CONCERN OVER DETERIORATING COMPETITIVE POSITION OF EXPOSED SECTOR, BUT CONCLUDED THAT FUTURE OIL REVENUES MADE IT HARD TO GET VERY NERVOUS ABOUT OVERALL PROSPECTS FOR NORWEGIAN ECONOMY. OIEA REAFFIRMED GON VIEW THAT ITS INCOMES POLICY APPROACH TO TRILATERAL CONSENSUS AMONG SOCIAL PARTNERS, TO REACH MODERATION IN NOMINAL WAGE INCREASES, WAS USEFUL AND HAD ENOUGH FLEXIBILITY TO MEET CHANGING CIRCUMSTANCES. (EDRC REVIEW CUT SHORT BY STRIKE AT OECD, WHERE ORGANIZATION'S "SOCIAL PARTNERS" WERE HAVING DIFFICULTY IN ACHIEVING "CONSENSUS.") END SUMMARY.

2. SHORT-TERM PROSPECTS; DOMESTIC OUTLOOK: AT EDRC, NORWEGIAN DEL PRESENTED UNOFFICIAL (AND NOT PUBLICLY AVAILABLE) REVISIONS TO GROWTH AND CURRENT ACCOUNT ESTIMATES (FOR 1976) AND FORECASTS (FOR 1977) WHICH WERE CONTAINED IN BUDGET FOR 1977. NORWEGIANS INDICATED THAT REVISED FIGURES REFLECTED FACT THAT PAUSE IN OECD-AREA EXPANSION HAD LASTED LONGER THAN EXPECTED AND THUS LIMITED OFFICIAL USE

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MAINLY AFFECTED PROJECTED GROWTH OF TRADITIONAL EXPORTS. GON NOW ESTIMATES THAT REAL GNP WILL GROW BY 4.25 PERCENT IN 1976 COMPARED WITH EARLIER FORECAST OF 4.75 PERCENT. NORWEGIANS HAVE REVISED DOWNWARD PROJECTIONS OF CONTRIBUTION OF REAL FOREIGN BALANCE TO 1977 GNP GROWTH, BUT NOW EXPECT STRONGER GROWTH OF PRIVATE AND GOVERNMENT CONSUMPTION, AND CONTINUE TO FORECAST 8 PERCENT GROWTH OF REAL GNP FOR NEXT YEAR.

3. PRICES AND WAGES: NORWEGIANS ESTIMATE THAT CONSUMER PRICES WILL INCREASE BY 9.2 PERCENT IN 1976. SECRETARIAT AND SEVERAL DELS WERE SKEPTICAL OF 8-8.5 PERCENT INCREASE IN PRODUCTIVITY OFFICIALLY ESTIMATED FOR 1976. NORWEGIANS NOTED SHEEPISHLY THAT PRODUCTIVITY ESTIMATE RESULTED FROM CLERICAL ERROR AND THAT ACTUAL INCREASE WAS ABOUT 6.5 PERCENT, INDICATING THAT WAGE COSTS WERE MORE IMPORTANT SOURCE OF INFLATIONARY PRESSURE THIS YEAR THAN HAD BEEN ASSUMED EARLIER. (NORWEGIANS DID NOT

INDICATE TO WHAT EXTENT REVISED PRODUCTIVITY CALCULATION  
WOULD INFLUENCE INFLATION ESTIMATES.)

4. FOR 1977, NORWEGIANS FORECASTED INFLATION RATE (CPI)

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OF 8.5 PERCENT, BUT NOTED THAT ACTUAL OUTCOME WILL DEPEND  
CRUCIALLY ON RESULTS OF SPRING WAGE ROUND. OIEN STATED  
THAT INCOMES POLICY WILL BE PRIMARY WEAPON IN FIGHT  
AGAINST INFLATION, AND THAT GON PLANS TO OFFER TAX CON-  
CESSIONS IN CONTEXT OF CENTRALIZED WAGE NEGOTIATIONS IN  
ORDER TO BRING ABOUT MODERATION IN WAGE CLAIMS. U.S.  
DEL POINTED OUT THAT PRUDENT DEMAND MANAGEMENT POLICIES  
WERE ESSENTIAL TO SUCCESS OF INCOMES POLICIES FOR REA-  
SONS OUTLINED REF D PARA 10(A). NORWEGIANS RESPONDED  
THAT CENTRALIZED WAGE NEGOTIATIONS, SPICED WITH TAX  
CONCESSIONS, SHOULD BE LEADING EDGE OF ECONOMIC POLICY  
IN SITUATION (LIKELY TO OBTAIN IN 1977) WHERE NEED TO  
BREAK INFLATIONARY EXPECTATIONS IS PARAMOUNT, BUT INDI-  
CATED THAT POLICY MIX COULD CHANGE IN RESPONSE TO CHANG-  
ING CIRCUMSTANCES. (OIEN GAVE IMPRESSION AT EDRC THAT  
HE DID NOT EXPECT TAX/BARGAINING TO BE PERMANENT FEATURE  
OF GON ECONOMIC POLICY.) NORWEGIANS FELT THAT SECRE-

TARIAT HAD OVEREMPHASIZED DEGREE TO WHICH TAX/BARGAINING  
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COULD LIMIT GON ABILITY TO USE FISCAL POLICY AS FLEXIBLE  
COUNTERCYCLICAL TOOL. THEY SUGGESTED THAT DRAFT SURVEY  
BE TONED DOWN IN THIS RESPECT, BUT AGREED IT WOULD BE  
APPROPRIATE FOR SECRETARIAT TO POINT OUT THIS RISK IN  
PUBLISHED SURVEY.

5. SEVERAL DELS AND SECRETARIAT ARGUED THAT LARGE  
INCREASE IN REAL INCOME GRANTED TO FARMERS AND PENSIONERS  
THIS YEAR COULD LEAD TO INFLATIONARY PRESSURES AS WAGE  
EARNERS SOUGHT TO RE-ESTABLISH EARNINGS DIFFERENTIALS.  
NORWEGIANS EXPLAINED THAT STATED GON POLICY IS TO ESTAB-  
LISH AND MAINTAIN PARITY BETWEEN EARNINGS OF INDUSTRIAL  
WORKERS AND THOSE OF FARMERS, BUT ADMITTED THAT DEFINING  
PARITY WAS TECHNICALLY DIFFICULT AND ITS DETERMINATION  
HAD HEAVY POLITICAL ELEMENT. (OIEI NOTED PARENTHETICALLY  
THAT SIZE OF EARNINGS GAP IS UNCERTAIN -- IF IT EXISTS  
AT ALL -- AND THAT GAP TENDS TO FLUCTUATE WITH FARMERS'  
DEMANDS.) IN ANY CASE, AS RESULT OF MEASURES APPROVED,  
FARMERS EXPECTED TO OBTAIN 30 PERCENT INCREASE IN REAL  
INCOME IN 1976 AND IN 1977. PARLIAMENTARY SUPPORT FOR  
THIS DRAMATIC INCREASE IN INCOMES OF PENSIONERS AND  
FARMERS HAD BEEN NEARLY UNANIMOUS, AND LABOR UNION LEAD-  
ERS HAD ACQUIESCED AS WELL. NEVERTHELESS, NORWEGIANS  
STRESSED RISK THAT RANK-AND-FILE UNION MEMBERS WOULD  
CONVENIENTLY DISREGARD ABSOLUTE DIFFERENTIALS IN LEVELS  
OF WAGE/FARMER-PENSIONER INCOMES AND RATHER FOCUS ON  
DRAMATICALLY RAPID RISE IN LATTER. THEY ADDED THAT IF  
WORKERS' ATTITUDES EVOLVE IN DIRECTION OF WANTING SIMILAR  
INCREASES FOR THEMSELVES POSITION OF UNION LEADERS WILL  
QUICKLY CHANGE. GON DELEGATION EXPLICITLY REJECTED  
HYPOTHESES OF ONE-WAY CAUSATION (FARMERS CHASE WAGE  
EARNERS OR VICE-VERSA) AS EXPLANATIONS OF DYNAMICS OF  
INTER-GROUP INCOME DETERMINATION, AND STATED EACH GROUP  
KEEPS CLOSE EYE ON INCOME POSITION OF THE OTHERS.  
ACCORDING TO NORWEGIANS, MAIN GON EFFORT IN AVOIDING  
INFLATIONARY STRUGGLE FOR INCOMES SHARES WILL BE TO WORK  
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BEHIND SCENES TO INDUCE LABOR TO EXERT POLITICAL PRESSURE  
FOR MODERATION ON FARMERS RATHER THAN TO ATTEMPT TO  
CONVINCE LABOR OF NEED FOR RESTRAINT AT BARGAINING TABLE.

6. DESPITE ABOVE UNCERTAINTIES, GON WORKING ASSUMPTION

IS THAT HOURLY WAGE RATES WILL RISE BY 10.5 PERCENT IN 1977 (9 PERCENT RISE IN AVERAGE ANNUAL WAGE INCOME AND 1-1/2 PERCENT FALL IN AVERAGE HOURS WORKED), AND THAT PRODUCTIVITY WILL INCREASE BY 6.2 PERCENT. NORWEGIANS INDICATED THAT TERMINATION OF TEMPORARY PRICE FREEZE AT END OF YEAR WOULD HAVE MINIMAL INFLATIONARY IMPACT, SINCE FREEZE WAS BASICALLY A PUBLIC RELATIONS MEASURE AND HAD NOT BEEN PARTICULARLY EFFECTIVE. THEY ADDED, HOWEVER, THAT PLANNED INCREASE IN PRICE OF PUBLIC SERVICES WOULD ENTRAIN SIGNIFICANT ACCELERATION IN INFLATION EARLY IN 1977 AND THAT CPI WAS FORECAST TO RISE BY 8.5 PERCENT NEXT YEAR.

7. CURRENT ACCOUNT: GON ESTIMATES THAT VOLUME GROWTH OF TRADITIONAL EXPORTS WILL BE 12 PERCENT IN 1976 AND FORECASTS 8 PERCENT RISE IN 1977. (1977 BUDGET CONTAINS PROJECTIONS OF 15 PERCENT AND 12 PERCENT RESPECTIVELY.) NORWEGIANS NOTED THAT MAIN FACTORS LEADING TO DOWNWARD REVISION WERE THAT (A) PAUSE IN OECD-AREA EXPANSION HAD LASTED LONGER THAN EXPECTED, AND (B) CORRECTED ESTIMATES OF PRODUCTIVITY GROWTH INDICATED THAT NORWAY'S COMPETITIVE POSITION WAS LESS FAVORABLE THAN HAD BEEN ASSUMED. CONSEQUENTLY, GON FORECASTS CURRENT ACCOUNT DEFICIT OF 19.8 BILLION KRONER IN 1976 AND OF 14.5 KRONER IN 1977, COMPARED WITH 1977 BUDGET FORECASTS OF 18.3 BILLION

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KRONER AND 13.2 BILLION KRONER RESPECTIVELY. GON FORECAST OF 8 PERCENT GROWTH IN VOLUME OF TRADITIONAL EXPORTS ASSUMES THAT MAJOR OECD COUNTRIES WILL TAKE STIMULATORY ACTION IN EARLY 1977. NORWEGIANS NOTED THAT UNDER ASSUMPTION THAT THERE WILL BE NO POLICY CHANGES IN MAJOR COUNTRIES (THE USUAL SECRETARIAT ASSUMPTION FOR ALL COUNTRIES), SECRETARIAT FORECAST (5 PERCENT) WAS MORE LIKELY OUTCOME.

8. NORWEGIANS SHARED EDRC CONCERN OVER DETERIORATION OF THEIR COMPETITIVE POSITION, AND NOTED THAT SITUATION WAS AGGRAVATED BY GON EXCHANGE-RATE POLICY OF HOLDING KRONER WITHIN "SNAKE," (WHICH HAD LED TO TRADE-WEIGHTED REVALUATION OF NK BY 6 PERCENT IN 1974, AND 3 PERCENT EACH IN 1975 AND 1976). NORWEGIANS AGREED THAT, BECAUSE OF EXPECTED INCREASE IN OIL REVENUES, THE INCREASE IN RELATIVE COSTS AND RESULTING LARGE CURRENT ACCOUNT DEFICIT WERE NOT PROBLEMS IN SENSE THAT EXTERNAL FINANCING CON-

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STRAINT WOULD LIMIT DOMESTIC POLICY OPTIONS. FURTHERMORE, THEY NOTED THAT CONTRACTION OF "EXPOSED" SECTOR AND SHIFT OF RESOURCES TO "SHELTERED" SECTIONS (PUBLIC SECTOR AND SERVICE SECTOR) WAS AN OBJECTIVE OF GON POLICY, AND THAT GRADUAL APPRECIATION OF KRONER ASSISTED THIS ADJUSTMENT. NEVERTHELESS, NORWEGIANS STRESSED THAT THEIR COMPETITIVE POSITION MAY BE DETERIORATING AT RATE INCONSISTENT WITH SMOOTH, CONTROLLED TRANSFER OF RESOURCES FROM EXPOSED TO SHELTERED SECTORS AND THAT SUCH STRUCTURAL CONSIDERATIONS NECESSITATED CONTINUED EFFORT TO RESTRAIN GROWTH OF WAGES AND PRICES. EDRC AGREED.

9. NORWEGIANS CITED RECENT ADVERSE COST AND PRICE DEVELOPMENTS AS IMPORTANT REASON WHY REVISED MEDIUM-TERM PROJECTIONS (TO BE PUBLISHED IN FEBRUARY OR MARCH, 1977) WOULD SHOW LESS RAPID MOVEMENT TOWARD CURRENT ACCOUNT SURPLUS IN PERIOD UP TO 1981. THEY ADDED THAT GAS AND OIL PRODUCTION PROJECTIONS WERE LOWER AND THAT NEGATIVE EFFECT OF SHIPPING CRISIS (NORWEGIAN DEL NOT PREPARED FOR DETAILED DISCUSSION OF SHIPPING SECTOR OR OF OUTLOOK FOR SHIPPING MARKET) AND MAGNITUDE OF TRANSFER OUTFLOWS (E.G. INTEREST AND DIVIDENDS FROM OIL SECTOR) WERE NOW FORESEEN TO BE LARGER THAN EXPECTED PREVIOUSLY. NORWEGIANS OFFERED ABOVE AS PRELIMINARY COMMENTS, STATED THAT REVISED MEDIUM-TERM PROJECTIONS WERE STILL IN PREPARATORY STAGE, AND WERE NOT SPECIFIC CONCERNING NEW NUMBERS.

THEY DID NOTE, HOWEVER, THAT ACHIEVEMENT OF 20 BILLION KRONER CURRENT ACCOUNT SURPLUS BY 1981 (FORECAST CONTAINED IN 1976 BUDGET) WAS DEFINITELY NOT IN CARDS. IN NORWEGIAN VIEW REVISED MEDIUM-TERM PROJECTIONS IMPLY THAT WHILE NORWAY SHOULD BEGIN EXPORTING CAPITAL OVER NEXT FEW YEARS, CAPITAL OUTFLOWS WILL BE DEVOTED TO RETIREMENT OF DEBT, WITH RESULT THAT NORWAY WILL NOT BECOME A NET CREDITOR AS EARLY AS 1981.

10. FISCAL AND MONETARY POLICY: NORWEGIANS AGREED WITH LIMITED OFFICIAL USE

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SECRETARIAT POINT (ECHOED BY U.S.) THAT IN ASSESSING MACRO-ECONOMIC IMPACT OF GON 1977 BUDGET IT MIGHT BE APPROPRIATE TO EXCLUDE OIL RECEIPTS, SINCE REVENUES FROM THIS SOURCE DO NOT ACT AS DRAG ON ECONOMIC ACTIVITY. HOWEVER, THEY INDICATED THAT GON INTENDED TO PURSUE EXPANSIONARY FISCAL POLICY NEXT YEAR TO MAINTAIN HIGH LEVEL OF EMPLOYMENT AND TO FACILITATE TRANSFER OF RESOURCES FROM EXPOSED TO SHELTERED SECTOR. NEVERTHELESS, NORWEGIANS EXPRESSED VIEW THAT GON MAY HAVE GONE TOO FAR, TOO FAST IN DIRECTION OF STIMULUS, AND THAT SOME MOVEMENT, "AT THE MARGIN," TOWARD RESTRAINT MIGHT BE APPROPRIATE.

11. EDRC SUPPORTED SECRETARIAT CONTENTION THAT GON POLICY OF MAINTAINING LOW AND RIGID INTEREST RATES HAD REDUCED SIGNIFICANTLY THE EFFECTIVENESS OF MONETARY POLICY AS DEMAND MANAGEMENT TOOL. U.S. DEL COMMENTED THAT BY HOLDING INTEREST RATES DOWN GON HAD ALSO EFFECTIVELY PRECLUDED PRIVATE SECTOR FROM PLAYING ROLE IN FINANCING OF CURRENT ACCOUNT DEFICIT, AND THAT FINANCING OPTIONS WERE THUS LIMITED TO DRAWDOWN OF RESERVES AND EXTERNAL PUBLIC-SECTOR BORROWING. OIEN GAVE PERFUNCTORY DEFENSE OF GON INTEREST-RATE POLICY BY NOTING THAT (A) LOW, CONSTANT INTEREST RATES PROMOTED STABLE GROWTH BY DAMPENING FLUCTUATIONS IN CONSTRUCTION SECTOR; (B) GON CONTROLS 40 PERCENT OF SOURCES OF CREDIT EXPANSION; THUS, POLICY FLEXIBILITY NOT SERIOUSLY IMPAIRED, AND (C) INTRODUCTION OF VARIABLE-INTEREST SHORT-TERM CREDIT CERTIFICATES EARLY IN 1977 WOULD INCREASE EFFECTIVENESS OF MONETARY POLICY (THEY FELT

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THESE INSTRUMENTS WOULD AID IN THE ABSORPTION OF THE  
7-8 BILLION KRONER INFUSION OF LIQUIDITY INTO DOMESTIC  
ECONOMY WHICH GON ANTICIPATES WILL RESULT FROM EXCHANGE  
MARKET INTERVENTION NEXT YEAR). (FYI: OIEN SAID HE  
PERSONALLY AGREED WITH SECRETARIAT VIEW, AND SAID HE  
PREFERRED NOT TO WASTE EDRC'S TIME BY ELABORATING FURTHER  
ON GON POSITION. IN FACT, HE SUGGESTED THAT SECRETARIAT'S  
OBLIQUE REFERENCE IN DRAFT SURVEY TO DESIRABILITY OF MORE  
FLEXIBLE INTEREST-RATE POLICY BE RECAST AS EXPLICIT  
RECOMMENDATION TO THIS EFFECT IN PUBLISHED DOCUMENT.  
SECRETARIAT WAS DELIGHTED. IN THIS CONNECTION, OIEN  
AGREED WITH U.S. REMARK THAT 10 PERCENT TAX ON INVEST-  
MENT AND MAINTENANCE OF LOW INTEREST RATES SEEMED TO  
SMACK OF INCONSISTENCY, AND SUGGESTED THAT SECRETARIAT  
ADDRESS THIS ISSUE IN NEXT YEAR'S SURVEY. (OIEN MUST  
FEEL VERY SECURE.) END FYI)

12. BASIC EDRC CONCLUSION WAS THAT NORWEGIANS ARE DOING  
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REASONABLY WELL, BUT THAT OIL HAS OPENED UP POLICY DOORS  
TO GON WHICH ARE CLOSED TO MOST OTHER OECD MEMBER  
COUNTRIES, AND THAT THEREFORE THE LATTER CAN DRAW FEW  
LESSONS FROM THE NORWEGIAN EXPERIENCE.



13. MUCH OF DISCREPANCY BETWEEN GON AND INDUSTRY FORECASTS OF INVESTMENT IN OIL SECTOR ARE TRACEABLE TO GON CLERICAL ERRORS. NORWEGIANS DID NOT HAVE ALTERNATIVE ESTIMATES. QUESTIONS RAISED REF B RE ECONOMIC IMPACT OF FISCAL POLICY IN 1977, MONETARY POLICY AND SHIPPING COVERED PARAS 10, 11, AND 9. POINTS MADE PARA 5 REF B AND PARA 2 REF C CONCERNING EFFECT OF INCREASE OF FARMERS'-PENSIONERS' INCOMES ADDRESSED PARA 5.  
KATZ

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